

**REPORT OF  
FINANCIAL EXAMINATION**

**FARMERS MUTUAL INSURANCE  
COMPANY OF SULLIVAN AND  
ADJOINING COUNTIES**

**AS OF  
DECEMBER 31, 2005**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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June 27, 2006  
Milan, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**FARMERS MUTUAL INSURANCE COMPANY OF SULLIVAN AND ADJOINING COUNTIES**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 115 South Market Street (P.O. Box 96), Milan, Missouri, telephone number (660) 265-3596. This examination began on June 26, 2006, and was concluded on June 27, 2006, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

### **Comments-Previous Examination Report**

There were no comments or recommendations contained in previous examination report dated December 31, 2000.

## **HISTORY**

### **General**

The Company was originally organized on February 13, 1896, as Farmers Mutual Insurance Company of Sullivan County, Missouri. On November 22, 1940, the Company reorganized, changed its name to Farmers Mutual Insurance Company of Sullivan and Adjoining Counties, and received a Certificate of Incorporation.

The Company has a Certificate of Authority dated October 27, 2003, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Thursday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not addressed in the Articles of Incorporation. The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Clyde Jr. Carr 16561 Highway YY Green City, Missouri	Farmer/Insurance Agent	2003-2006
Melvin Hall 22956 266 <sup>th</sup> Road Unionville, Missouri	Store Owner/Insurance Agent	2004-2007
Randy Kincanon 17268 Highway 129 Green City, Missouri	Business Manager/Farmer	2003-2006
Dan Lentz 29981 Highway DD Browning, Missouri	Farmer	2004-2007
David Lentz 33662 Blossom Drive Browning, Missouri	Farmer/Insurance Agent	2005-2008
Earl F. McKee 46245 Robin Road Humphreys, Missouri	Farmer	2003-2006
Carol E. Mino 42104 Highway WW Harris, Missouri	Company Secretary/Treasurer & Agent	2004-2007
John T. Mino 42104 Highway WW Harris, Missouri	Farmer/Insurance Agent	2005-2008
Albert Stallings 608 South West Street Green City, Missouri	Retired Farmer	2005-2008

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Clyde Jr. Carr  
Melvin Hall  
Carol E. Mino

President  
Vice-President  
Secretary/Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. On January 30, 2003, the Company amended the Articles of Incorporation, changing all references to “assessments” to “premiums,” to facilitate the Company’s conversion to a non-assessable company. The Bylaws were also amended to change all references to “assessments” to “premiums” and to change the annual meeting date from the last Thursday in January to the first Thursday in March.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$35,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$500,000 and a \$500 deductible in aggregate for each claim.

The Company carries errors and omissions liability coverage for its agents, for which the Company pays

a portion of the premium.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has one full-time and one part-time employee. The full time employee receives three weeks of vacation and is allowed sick leave on an as-needed basis. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by five licensed producers, who are also directors of the Company. The producers receive a 20% commission for the first year of new business and a 15% commission on all other business.

### **Policy Forms and Underwriting Practices**

The Company uses AAIS, MAMIC and Grinnell policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the producers and adjusting services are performed by the producers and independent adjusters.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$675,539	\$123,587	\$267,894	\$76,624	\$18,323	\$8,323	\$27,086
2004	643,718	118,328	250,647	108,805	17,082	(12,229)	5,078
2003	624,846	102,975	244,799	198,166	18,428	(9,630)	9,048
2002	589,595	71,501	197,354	63,182	21,339	27,142	48,481
2001	543,933	77,185	197,411	215,833	25,303	26,644	51,947

At year-end 2005, 636 policies were in force.

## REINSURANCE

### General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$197,411	\$197,354	\$244,799	\$250,647	\$267,894
Assumed	0	0	0	0	0
Ceded	<u>(75,215)</u>	<u>(70,495)</u>	<u>(51,108)</u>	<u>(65,380)</u>	<u>(84,255)</u>
Net	<u>\$122,196</u>	<u>\$126,859</u>	<u>\$193,691</u>	<u>\$185,267</u>	<u>\$183,639</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an aggregate excess plan reinsurance agreement. The first occurrence of loss section of the agreement covers fire and wind risks. The Company retains \$25,000 per occurrence and the



reinsurer's limit is \$25,000 per occurrence. First occurrence of loss rates are calculated based on net recoveries paid by the reinsurer, with minimum rate of .3126 and a maximum rate of 1.8942 per \$1,000 of adjusted gross risk in force. The individual excess of loss section of the agreement covers wind and fire risks. The Company retains \$50,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2005 was \$.6077 for fire and \$.1149 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2005 was \$81,569 and the annual premium paid was \$.3965 per \$1,000 of adjusted gross fire risks in force.

The agreement provides for homeowners coverage. The Company cedes 100% of the risk and premium and receives a 30% ceding commission.

The agreement provides for liability risk coverage. The Company cedes 100% of the risk and premium to the reinsurer and receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Marberry, Miller & Bales, P.C. performs an annual audit of the Company's financial records and prepares the Annual Statement and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2005**

Stocks	\$ 131,814
Real Estate	22,672
Cash on Deposit	507,762
Interest Due and Accrued	9,261
Asset Write-Ins	1,030
	-----
Total Assets	\$ 672,539
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2005**

Losses Unpaid	\$ 700
Loss Adjusting Expense Unpaid	65
Ceded Reinsurance Payable	6,847
Unearned Premium	115,746
Liability Write-Ins	229
	-----
Total Liabilities	\$ 123,587
	-----
Guaranty Fund	\$ 150,000
Other Surplus	398,952
	-----
Total Surplus	\$ 548,952
	-----
Total Liabilities and Surplus	\$ 672,539
	=====

**STATEMENT OF INCOME**  
**December 31, 2005**

Net Premium	\$ 175,313
Net Losses Incurred	(70,015)
Other Underwriting Expenses	(96,975)
	-----
Net Underwriting Income (Loss)	\$ 8,323
	-----
Investment Income	\$ 18,323
Other Income	440
	-----
Gross Income (Loss)	\$ 27,086
Federal Income Tax	(0)
	-----
Net Income (Loss)	\$ 27,086
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2005**

Policyholders' Surplus, December 31, 2004	\$ 525,390
Net Income (Loss)	27,086
Increase in Unrealized Securities Loss	(2,831)
Decrease in Non-Admitted Assets	1,306
Increase in Non-Admitted Assets	(1,999)
	-----
Policyholders' Surplus, December 31, 2005	\$ 548,952
	=====

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

There were no comments or recommendations.

## **SUBSEQUENT EVENTS**

Effective January 1, 2006, the Company increased its individual occurrence of loss reinsurance retention from \$25,000 to \$50,000.

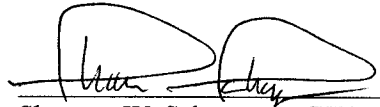
## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Sullivan and Adjoining Counties during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole     )

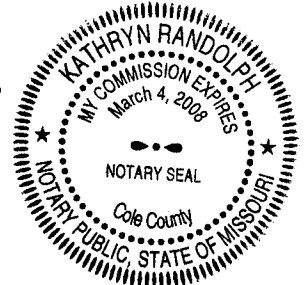
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 29<sup>th</sup> day of June, 2006.

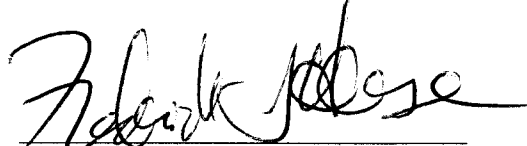
My commission expires:

March 4, 2008       
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance